

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

ATTORNEY GENERAL'S FIRST SET OF DOCUMENT AND
INFORMATION REQUESTS

D.T.E. 05-40

Respondent: John E. Allocca/Counsel

Date: August 24, 2005

Information Request AG-1-10

- Q. Please provide a status report on the Enron contracts that were turned back to the Company by the bankruptcy court. Provide the 2004 monthly cost and revenues associated with these contracts. Include the amount charged customers through the CGA and the amount of any margin shared with the shareholders. Provide all supporting documentation, workpapers, calculations and assumptions, the associated gas costs, delivery and receipt points, and include the actual monthly volumes that were delivered on these contracts.
- A. On April 1, 2003, the Company provided the D.T.E. a status report regarding the 35,000 MMBtu/day of pipeline capacity released by Boston Gas Company to Enron Capital and Trade Resources Group in 1997 as part of a Canadian contract-restructuring plan with Imperial Gas Resources, Corp. approved by the Department in Boston Gas Company, D.T.E. 97-104 (1997). Pursuant to the terms of that arrangement, the capacity was returned to KeySpan in 2002 as a result of the Enron bankruptcy proceedings. A copy of the April 1, 2003 is provided as Attachment DTE 1-10-A

Attachment DTE 1-10-B shows the monthly demand charges on Iroquois Gas Transmission ("IGTS") and Tennessee Gas Pipeline ("TGP") associated with the returned capacity that was included by the Company in its CGA for the period January 1, 2004 through December 31, 2004. To the extent possible, the Company has taken steps to mitigate those demand charges.

As discussed in the April 1, 2003 letter, since November 1, 2002, the Enron capacity has been included as part of the Company's portfolio of assets that are presently managed by Merrill Lynch Commodities Inc. ("MLCI"). Under the portfolio-management arrangement, the Company releases or assigns certain of its upstream gas resource contracts to MLCI and MLCI is obligated to make available to the Company the capacity resources required to meet the Company's firm sendout requirements on a day-to-day basis. MLCI is allowed to utilize the assigned contracts to the extent that those contracts are not needed to meet the Company's firm requirements on any given day. In return, MLCI pays KeySpan

a management fee. To maximize the value that could be obtained for the Enron capacity, the Company included the capacity in the contracts released to MLCI. Therefore, the value of the Enron capacity is reflected in the fee that KeySpan is receiving from MLCI. That value is returned to the Company's customers as an offset to the fixed-demand charges associated with the Company's resource portfolio. The Enron capacity will continue to be managed in this fashion at least through March 31, 2006, which is the termination date of the MLCI agreement.

In addition, KeySpan pursued recovery of the remaining value of the Enron capacity release agreement through the United States Bankruptcy court. Following extensive negotiations between the Company and Enron, Boston Gas' allowed claim amount was settled at \$12,301,795. Once the bankruptcy estate is settled, KeySpan will receive a percentage payout of its allowed claim as a creditor of the estate as determined by the court. The Company will return its net bankruptcy claim recoveries to ratepayers through the CGA.